News
Release

Orchestrating a brighter world NEC

Press Release - Media Contacts: Joseph Jasper TEL: +81-3-3798-6511
***** For immediate use May 12, 2020

Consolidated Financial Results

for the Fiscal Year Ended

March 31, 2020

Summary of Consolidated Financial Results for the Year Ended March 31, 2020 [IFRS]

May 12, 2020

Company name	NEC Corporation	Stock exchange listing: Tokyo
Code number	6701 URL https://www.nec.com/	
Representative	Takashi Niino, President and CEO	
Contact	Akiko Shikimori, General Manager of the Corporate Communications Division	TEL +81-3-3798-6511
Scheduled date of Ordinary General Meeting of Shareholders	June 22, 2020	Scheduled date of dividend payments June 1, 2020
Scheduled date of Annual Securities Report filing	June 22, 2020	
Supplementary materials for financial results	Yes	
Financial results briefing	Yes (for institutional investors and analysts)	

(Million JPY, rounded to the nearest million JPY)

1. Consolidated Financial Results for the Year ended March 31, 2020 (April 1, 2019 – March 31, 2020)

(1) Consolidated Operating Results (Percentage figures represent year-on-year changes)

	Revenue		Operating profit		Profit before income taxes		Net profit for the year		Net profit attributable to owners of the parent		Total comprehensive income for the year	
Years ended	JPY (millions)	%	JPY (millions)	%	JPY (millions)	%	JPY (millions)	%	JPY (millions)	%	JPY (millions)	%
March 31, 2020	3,095,234	6.2	127,609	120.9	123,969	60.4	112,719	117.1	99,967	152.0	79,569	974.4
March 31, 2019	2,913,446	2.4	57,780	(9.5)	77,308	(11.1)	51,930	(13.7)	39,675	(13.5)	7,406	(88.9)

	Adjusted operating profit		Adjusted net profit attributable to owners of the parent		Basic earnings per share	Diluted earnings per share	Adjusted basic earnings per share
Years ended	JPY (millions)	%	JPY (millions)	%	JPY	JPY	JPY
March 31, 2020	145,798	108.5	111,210	136.8	385.02	385.01	428.32
March 31, 2019	69,927	–	46,961	–	152.75	152.75	180.80

	Return on equity attributable to owners of the parent	Ratio of profit before income taxes to total assets	Ratio of operating profit to revenue
Years ended	%	%	%
March 31, 2020	11.3	4.1	4.1
March 31, 2019	4.6	2.7	2.0

(Reference) Share of profit (loss) of entities accounted for using the equity method: Year ended March 31, 2020 3,347 million JPY Year ended March 31, 2019 5,916 million JPY

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent to total assets	Equity per share attributable to owners of the parent
As of	JPY (millions)	JPY (millions)	JPY (millions)	%	JPY
March 31, 2020	3,123,254	1,114,523	910,674	29.2	3,508.16
March 31, 2019	2,963,222	1,059,681	858,939	29.0	3,307.30

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents, at end of the year
Years ended	JPY (millions)	JPY (millions)	JPY (millions)	JPY (millions)
March 31, 2020	261,863	(84,023)	(91,747)	359,252
March 31, 2019	64,235	(76,675)	(50,503)	278,314

2. Dividends

	Annual dividends					Total dividends	Payout ratio (consolidated)	Ratio of dividends to equity attributable to owners of the parent (consolidated)
	End of first quarter	End of second quarter	End of third quarter	Fiscal year-end	Total			
Years ended	JPY	JPY	JPY	JPY	JPY	JPY (millions)	%	%
March 31, 2019	–	0.00	–	40.00	40.00	10,393	26.2	1.2
March 31, 2020	–	30.00	–	40.00	70.00	18,188	18.2	2.1
March 31, 2021 (forecast)	–	40.00	–	40.00	80.00		23.1	

3. Consolidated Financial Results Forecast for the Year Ending March 31, 2021 (April 1, 2020 – March 31, 2021)

(Percentage figures represent year-on-year changes)

	Revenue		Operating profit		Net profit attributable to owners of the parent		Basic earnings per share
	JPY (millions)	%	JPY (millions)	%	JPY (millions)	%	JPY
Year ending March 31, 2021	3,030,000	(2.1)	150,000	17.5	90,000	(10.0)	346.70

	Adjusted operating profit		Adjusted net profit attributable to owners of the parent		Adjusted basic earnings per share
	JPY (millions)	%	JPY (millions)	%	JPY
Year ending March 31, 2021	165,000	13.2	99,000	(11.0)	381.37

*Notes

(1) Changes in significant subsidiaries during the period
(changes in specified subsidiaries resulting in the change in consolidation scope): None
Newly included : — — (Name of the company)
Excluded : — — (Name of the company)

(2) Changes in accounting policies and changes in accounting estimates
1) Changes in accounting policies required by IFRS : Yes
2) Changes in accounting policies other than 1) : None
3) Changes in accounting estimates : None
(Note) For details, refer to “4. Consolidated Financial Statements and Major Notes (5) Notes to Consolidated Financial Statements” on page 23.

(3) Number of shares outstanding (common stock)

1) Number of shares outstanding at the year-end (including treasury stock)	March 31, 2020	260,473,263 shares	March 31, 2019	260,473,263 shares
2) Number of treasury stock at the year-end	March 31, 2020	885,719 shares	March 31, 2019	763,126 shares
3) Average number of shares during the year	March 31, 2020	259,644,373 shares	March 31, 2019	259,737,901 shares

(Reference) Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Year Ended March 31, 2020 (April 1, 2019 – March 31, 2020)

(1) Non-consolidated Operating Results (Percentage figures represent year-on-year changes)

	Revenue		Operating profit		Ordinary profit		Net profit	
Years ended	JPY (millions)	%	JPY (millions)	%	JPY (millions)	%	JPY (millions)	%
March 31, 2020	1,789,661	8.2	56,815	–	64,508	81.0	38,843	79.8
March 31, 2019	1,654,242	5.1	3,255	–	35,644	167.4	21,603	(36.4)

	Basic earnings per share	Diluted earnings per share
Years ended	JPY	JPY
March 31, 2020	149.60	–
March 31, 2019	83.17	–

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	JPY (millions)	JPY (millions)	%	JPY
March 31, 2020	2,100,174	719,433	34.3	2,771.40
March 31, 2019	2,129,875	720,575	33.8	2,774.49

(Reference) Equity March 31, 2020 719,433 JPY (millions) March 31, 2019 720,575 JPY (millions)

*This summary of consolidated financial results falls outside the scope of year-end audit procedures to be performed by certified public accountants or an audit firm.

*Explanation concerning the appropriate use of the financial results forecast and other special matters

(Adjusted profit (loss))

For definitions of “Adjusted operating profit (loss)” and “adjusted net profit (loss) attributable to owners of the parent,” please refer to “1.Overview of Business Results” on page 5.

(Settlement of the provisional accounting treatment)

As the provisional accounting treatment for KMD Holding ApS (“KMD”) acquired in the year ended March 31, 2019 is settled during the 2nd quarter of the fiscal year ended March 31, 2020, the corresponding figures in the fiscal year ended March 31, 2019 have been retrospectively adjusted.

(Cautionary statement with respect to forward-looking statements)

The forward-looking statements such as operating results forecast contained in this statements summary are based on the information currently available to NEC Corporation ("the Company") and certain assumptions considered reasonable. Actual operating results may differ significantly from these forecasts due to various factors. For details, please refer to “5. Cautionary Statement with Respect to Forward-Looking Statements” on page 50.

(How to obtain supplementary financial materials and information on the financial results briefing)

On May 12, 2020, the Company will hold a financial results briefing for the institutional investors and analysts. Presentation materials will be posted on the company website after the release of financial results, and the presentation video and Q&A summary will be also posted on the company website promptly after the financial results briefing.

In addition to the above, the Company periodically holds briefings on business and operating results for the individual investors. Presentation materials and Q&A summary will be posted on the company website promptly after the briefing. For the schedule and details, please check the company website.

Table of Contents of Attachment

1. Overview of Business Results

As stated in the July 10, 2019 announcement, “NEC to Revise Operating Segments”, starting from the first quarter of the consolidated financial results for the fiscal year ended March 31, 2020, NEC announced operating results using revised segments. And as stated in the March 18, 2020 announcement, “NEC to Revise Reportable Segments”, starting from the consolidated financial results for the fiscal year ended March 31, 2020, NEC announced operating results using revised reportable segments. Accordingly, figures for the corresponding period of the previous fiscal year have been restated to conform to the new segments.

In addition, as the provisional accounting treatment for KMD Holding ApS ("KMD") acquired in the previous fiscal year was settled in the second quarter of the fiscal year ended March 31, 2020, the relevant figures for the previous fiscal year have been retrospectively adjusted.

"Adjusted operating profit (loss)" is an indicator for measuring underlying profitability in order to clarify the contribution of acquired companies to NEC’s overall earnings. It is calculated by deducting amortization of intangible assets recognized as a result of M&A and expenses for acquisition of companies (financial advisory fees, etc.) from operating profit (loss). Also, "Adjusted net profit (loss) attributable to owners of the parent" is an indicator for measuring underlying profitability attributable to owners of the parent. It is calculated by deducting adjustment items of operating profit (loss) and the corresponding amount of tax and non-controlling interests from net profit (loss) attributable to owners of the parent.

(1) Overview of Operating Results

The worldwide economy during the fiscal year ended March 31, 2020 slowed down due to factors such as the US-China trade conflict and the effects of the novel coronavirus.

As for the Japanese economy, in addition to the slowdown of economies throughout the world and the increase in Japan’s consumption tax rate, the impact of the novel coronavirus infectious disease resulted in sluggish performance.

Under these business conditions, the NEC Group implemented a variety of innovative changes that included a "Reform of profit structure," an "Achievement of growth" and a "Restructuring of execution capabilities" as outlined in the "Mid-term Management Plan 2020" announced in January 2018.

In terms of the "Reform of profit structure," as part of securing the investment necessary to return to a growth trajectory, NEC further promoted structural reforms, such as responding to problematic businesses in order to improve profitability. Specifically, in January 2020, NEC sold all common stock of Nippon Avionics Co., Ltd., and in March 2020, agreed to transfer a majority of the shares of NEC Display Solutions, Ltd., a subsidiary responsible for the video solution business, to Sharp Corporation. In the wireless solutions business, NEC implemented measures to improve profitability, such as promoting profitability-focused businesses and collaborating with Ceragon Networks Ltd. to reduce development costs.

As for the "Achievement of growth," NEC worked to create social value by promoting businesses that make use of digital technologies, such as biometrics and artificial intelligence (AI). In particular, in July 2019, NEC announced that it will collaborate with Star Alliance, the world's largest airline alliance, on the development of a personal identification platform that uses biometric technology in order to realize seamless boarding procedures for passengers. Furthermore, in August 2019, NEC participated in Lawson, Inc.’s demonstration experiment of a late night labor saving store with the provision of a store entrance management system using a face recognition AI engine and related technologies and services. Moreover, in September 2019, NEC carried out trials of a next-generation ATM system that supports face recognition identity verification and QR code settlement with Seven Bank, Ltd. This ATM was also used for trials of a system for opening bank accounts with face authentication for the first time in Japan.

In addition, NEC is beginning shipments of base station equipment and wireless slave stations to NTT DOCOMO, INC. and Rakuten Mobile, Inc. for the construction of networks for 5th generation mobile communications systems (5G), as well as full scale entry into the "local 5G" business, which provides 5G only to limited locations. This is in addition to the launch of activities for proposing total solutions, from network infrastructure to applications, to companies and local governments.

Regarding the "Restructuring of execution capabilities," NEC worked to create value for customers utilizing the latest technologies and to implement reforms that enable employees to maximize their strengths. In terms of creating value for customers utilizing the latest technologies, NEC announced its full-scale entry into the drug discovery business that specializes in advanced immunotherapy for cancer and other diseases as a part of strengthening the healthcare business. In addition to starting clinical trials of individualized neoantigen vaccines, NEC also worked on activities to put infant fingerprint authentication into practical use, which enables services that include birth certification, registration and the tracking of vaccination records for newborns in developing countries. As part of implementing reforms that enable employees to maximize their strengths, NEC deployed a performance management system for group companies that fairly evaluates employees in terms of both achievements and actions and rewards their contributions. At the same time, NEC introduced "NEC Growth Careers" as a mechanism for employees to cultivate their own careers and motivate them to grow, by internally disclosing the work history of employees and the recruitment positions of each organization to assist with job matching. In addition, NEC promoted institutional reforms and environment improvements to accelerate work style changes, such as the establishment of "BASE," a working space that promotes collaboration between organizations and enables more creative work styles, the introduction of “Super Flex” schedules without a core working time, the promotion of telework through telework week and company-wide telework day.

The NEC Group recorded consolidated revenue of 3,095.2 billion JPY for the fiscal year ended March 31, 2020, an increase of 181.8 billion JPY (6.2%) year-on-year. This increase was due to increased sales in all reportable segments.

Regarding profitability, operating profit (loss) improved by 69.8 billion JPY year-on-year, to an operating profit of 127.6 billion JPY. This was mainly due to increased revenue, in addition to business structure improvement expenses recorded in the previous fiscal year. Adjusted operating profit (loss) improved by 75.9 billion JPY year-on-year, to an adjusted operating profit of 145.8 billion JPY.

Income (loss) before income taxes was an income of 124.0 billion JPY, a year-on-year improvement of 46.7 billion JPY, mainly due to improved operating profit (loss), despite the effect of gains from the sale of affiliated company shares that was recorded in the previous fiscal year.

Net profit (loss) attributable to owners of the parent for the fiscal year ended March 31, 2020 was a profit of 100.0 billion JPY, an improvement of 60.3 billion JPY year-on-year, primarily due to improved income (loss) before income taxes. Adjusted net profit (loss) attributable to owners of the parent improved by 64.2 billion yen year-on-year, to a profit of 111.2 billion yen.

Results by main segment

Revenue by segment (revenue from customers):

Segments	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020	Change
	JPY (billions)	JPY (billions)	%
Public Solutions	286.2	324.6	13.4
Public Infrastructure	621.9	631.1	1.5
Enterprise	431.8	455.5	5.5
Network Services	460.3	509.8	10.8
System Platform	500.2	548.7	9.7
Global	409.4	493.8	20.6
Others	203.7	131.7	(35.4)
Total	2,913.4	3,095.2	6.2

Adjusted operating profit (loss) by segment:

Segments	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020	Change
	JPY (billions)	JPY (billions)	JPY (billions)
Public Solutions	7.2	18.6	11.4
Public Infrastructure	45.4	53.9	8.5
Enterprise	35.8	37.2	1.3
Network Services	20.7	38.2	17.5
System Platform	20.1	48.9	28.8
Global	(22.5)	(3.8)	18.8
Others	19.0	9.4	(9.6)
Adjustments	(55.7)	(56.5)	(0.8)
Total	69.9	145.8	75.9

Notes:

Amounts in this section “Results by main segment” are rounded to 0.1 billion JPY. Amounts in millions of yen are shown in Note 4 “Segment information” in Note (5) “Notes to the Consolidated Financial Statements”.

(Business segment figures in brackets below denote increases or decreases as compared with the corresponding period of the previous fiscal year.)

Public Solutions Business

Revenue:	324.6 billion JPY	(+13.4%)
Adjusted operating profit (loss):	18.6 billion JPY	(+11.4 billion JPY)

In the Public Solutions business, revenue was 324.6 billion JPY, an increase of 38.5 billion JPY (+13.4%) year-on-year, mainly due to increased sales in sectors that include public and healthcare.

Adjusted operating profit (loss) improved by 11.4 billion JPY year-on-year, to a profit of 18.6 billion JPY, mainly owing to increased sales and improved profitability.

Public Infrastructure Business

Revenue:	631.1 billion JPY	(+1.5%)
Adjusted operating profit (loss):	53.9 billion JPY	(+8.5 billion JPY)

In the Public Infrastructure business, revenue was 631.1 billion JPY, an increase of 9.3 billion JPY (+1.5%) year-on-year, mainly due to increased sales in sectors that include aerospace and defense.

Adjusted operating profit (loss) improved by 8.5 billion JPY year-on-year, to a profit of 53.9 billion JPY, mainly owing to increased sales and improved profitability.

Enterprise Business

Revenue:	455.5 billion JPY	(+5.5%)
Adjusted operating profit (loss):	37.2 billion JPY	(+1.3 billion JPY)

In the Enterprise business, revenue was 455.5 billion JPY, an increase of 23.7 billion JPY (+5.5%) year-on-year, mainly due to increased sales for the finance sector.

Adjusted operating profit (loss) improved by 1.3 billion JPY year-on-year, to a profit of 37.2 billion JPY, mainly owing to increased sales.

Network Services Business

Revenue:	509.8 billion JPY	(+10.8%)
Adjusted operating profit (loss):	38.2 billion JPY	(+17.5 billion JPY)

In the Network Services business, revenue was 509.8 billion JPY, an increase of 49.5 billion JPY (+10.8%) year-on-year, mainly due to increased sales in the fixed network domain and an one-time large-scale project.

Adjusted operating profit (loss) improved by 17.5 billion JPY year-on-year, to a profit of 38.2 billion JPY, mainly owing to increased sales.

System Platform Business

Revenue:	548.7 billion JPY	(+9.7%)
Adjusted operating profit (loss):	48.9 billion JPY	(+28.8 billion JPY)

In the System Platform business, revenue was 548.7 billion JPY, an increase of 48.5 billion JPY (+9.7%) year-on-year, mainly due to increased sales in hardware, primarily business PCs.

Adjusted operating profit (loss) improved by 28.8 billion JPY year-on-year, to a profit of 48.9 billion JPY, mainly owing to the effect of restructuring as well as increased sales.

Global Business

Revenue:	493.8 billion JPY	(+20.6%)
Adjusted operating profit (loss):	-3.8 billion JPY	(+18.8 billion JPY)

In the Global business, revenue was 493.8 billion JPY, an increase of 84.4 billion JPY (+20.6%) year-on-year, mainly due to increased sales in the Safer City and submarine systems domains.

Adjusted operating profit (loss) improved by 18.8 billion JPY year-on-year, to a loss of 3.8 billion JPY, mainly owing to increased profitability in the Safer City, service provider, wireless backhaul and submarine systems domains.

Others

Revenue:	131.7 billion JPY	(-35.4%)
Adjusted operating profit (loss):	9.4 billion JPY	(-9.6 billion JPY)

In Others, revenue was 131.7 billion JPY, a decrease of 72.0 billion JPY (-35.4%) year-on-year.

Adjusted operating profit (loss) worsened by 9.6 billion JPY year-on-year, to a profit of 9.4 billion JPY.

(2) Overview of Financial Position

Total assets were 3,123.3 billion JPY as of March 31, 2020, an increase of 160.0 billion JPY as compared with the end of the previous fiscal year. Current assets as of March 31, 2020 increased by 60.7 billion JPY compared with the end of the previous fiscal year to 1,698.9 billion JPY, mainly due to an increase in cash and cash equivalents from the collection of trade receivables and other receivables, despite a decrease in inventories due to the sales at the end of the period. Non-current assets as of March 31, 2020 increased by 99.4 billion JPY compared with the end of the previous fiscal year to 1,424.3 billion JPY, mainly due to an increase in property, plant and equipment due to the recording of right-of-use assets associated with the adoption of International Financial Reporting Standards (“IFRS”) 16 “Leases” (“IFRS 16”).

Total liabilities as of March 31, 2020 increased by 105.2 billion JPY compared with the end of the previous fiscal year, to 2,008.7 billion JPY, mainly due to the recording of a lease liability associated with the adoption of IFRS 16, despite a decrease in trade and other payables due to the payment of material costs. The balance of interest-bearing debt amounted to 675.4 billion JPY, an increase of 122.9 billion JPY as compared with the end of the previous fiscal year. The debt-equity ratio as of March 31, 2020 was 0.74 (a worsening of 0.10 points as compared with the end of the previous fiscal year). The balance of net interest-bearing debt as of March 31, 2020, calculated by offsetting the balance of interest-bearing debt with the balance of cash and cash equivalents, amounted to 316.2 billion JPY, an increase of 42.0 billion JPY as compared with the end of the previous fiscal year. The net debt-equity ratio as of March 31, 2020 was 0.35 (a worsening of 0.03 points as compared with the end of the previous fiscal year).
Taking into account the effects of adopting IFRS 16, changes in the balance of interest-bearing debt and the balance of net interest-bearing debt at the beginning of the fiscal year were a decrease of 52.2 billion JPY and a decrease of 133.2 billion JPY, respectively. The debt-equity ratio and the net debt-equity ratio improved 0.11 points and 0.17 points, respectively, compared to the beginning of the current fiscal year.

Total equity was 1,114.5 billion JPY as of March 31, 2020, an increase of 54.8 billion JPY as compared with the end of the previous fiscal year, mainly due to the recording of net profit attributable to owners of the parent for the fiscal year ended March 31, 2020, despite the payment of dividends and a decrease in other components of equity due to market price fluctuations of securities and the appreciation of the yen.

As a result, total equity attributable to owners of the parent (total equity less non-controlling interests) as of March 31, 2020 was 910.7 billion JPY, and the ratio of equity attributable to owners of the parent was 29.2% (an improvement of 0.2 points as compared with the end of the previous fiscal year).

(3) Overview of Cash Flows

Net cash inflows from operating activities for the fiscal year ended March 31, 2020 were 261.9 billion JPY, an improvement of 197.6 billion JPY as compared with the previous fiscal year, mainly due to improved income before income taxes as well as the impact of adopting IFRS 16 and improved working capital.

Net cash outflows from investing activities for the fiscal year ended March 31, 2020 were 84.0 billion JPY, an increase of 7.3 billion JPY as compared with the previous fiscal year, mainly due to an increase in purchase of property, plant and equipment.

As a result, free cash flows (the sum of cash flows from operating activities and investing activities) for the fiscal year ended March 31, 2020 totaled a cash inflow of 177.8 billion JPY, an improvement of 190.3 billion JPY year-on-year.

Net cash flows from financing activities for the fiscal year ended March 31, 2020 totaled a cash outflow of 91.7 billion JPY, mainly due to redemption of commercial paper as well as payment of dividends and repayment of lease liabilities.

As a result, cash and cash equivalents as of March 31, 2020 amounted to 359.3 billion JPY, an increase of 80.9 billion JPY as compared with the end of the previous fiscal year.

(4) Outlook for the Fiscal Year Ending March 31, 2021

For the future outlook, there is concern that the global spread of the novel coronavirus will impact business performance, but the influence is currently under close scrutiny and it is not factored into the plan described below.

The plan for the fiscal year ending March 31, 2021 is based on the "Mid-term Management Plan 2020" announced in January 2018. The NEC Group anticipates consolidated revenue of 3,030.0 billion JPY for the fiscal year ending March 31, 2021 due to a decrease in revenue from the deconsolidation of the video solution business. The NEC Group anticipates consolidated operating profit of 150.0 billion JPY for the fiscal year ending March 31, 2021 due to improved profitability of the global business and a reduction in unprofitable projects, despite a decrease in revenue. The NEC Group also expects 90.0 billion JPY of net profit attributable to owners of the parent for the same period. In addition, adjusted operating profit (loss) is planned to be 165.0 billion JPY, and adjusted profit (loss) attributable to owners of the parent is expected to be 99.0 billion JPY.

(5) Basic Policy for Profit Distribution and Dividends for the Fiscal Year Ended March 31, 2020 and the Fiscal Year Ending March 31, 2021

NEC's commitment to shareholder returns includes comprehensive consideration for the profit status of each period in addition to future capital requirements and the execution of business operations with an emphasis on capital efficiency, while regarding investment in growth areas and the enhancement of its financial base as being tied to the creation of long-term corporate value.

For the fiscal year ended March 31, 2020, mainly considering that the operating profit, which is the profit of the main business, exceeded the figures announced at the beginning of the fiscal year, NEC declared an annual dividend of 70 yen per share of common stock (interim dividend of 30 yen per share), an increase of 10 yen per share from the announcement at the beginning of the fiscal year.

For the fiscal year ending March 31, 2021, NEC plans for an annual dividend of 80 yen per share of common stock (interim dividend of 40 yen per share).

In addition, NEC stipulates in its Articles of Incorporation that it may determine distribution of surplus dividends flexibly through resolutions of the Board of Directors, and that record dates of distribution of surplus dividends shall be March 31 and September 30.

2. Status of the Group

The NEC Group's consolidated subsidiaries (300 companies) are listed below by segment.

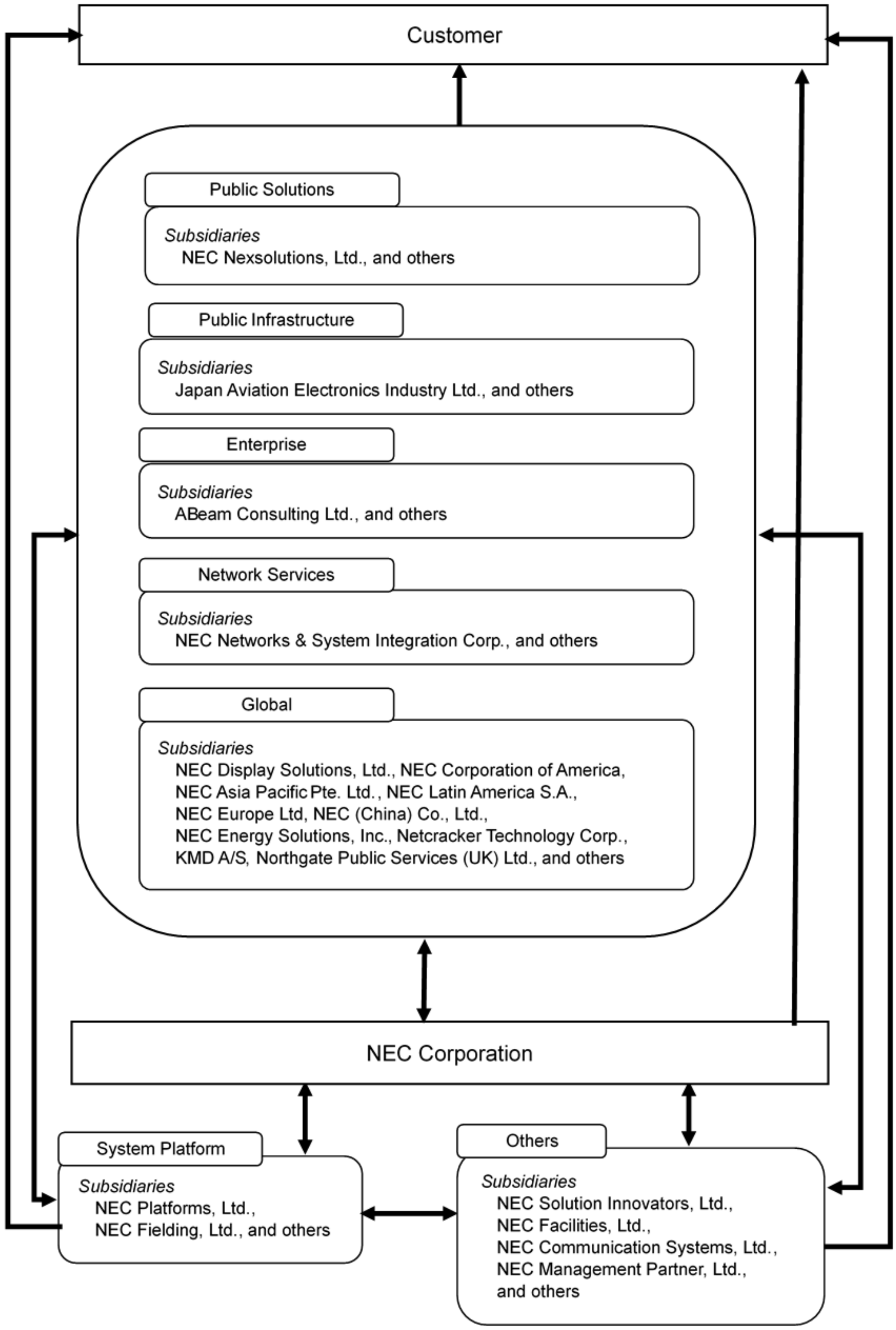
As of March 31, 2020

Segment	*Subsidiaries*
Public Solutions	NEC Nexsolutions, Ltd., and others
Public Infrastructure	Japan Aviation Electronics Industry Ltd., and others
Enterprise	ABeam Consulting Ltd., and others
Network Services	NEC Networks & System Integration Corp., and others
System Platform	NEC Platforms, Ltd., NEC Fielding, Ltd., and others
Global	NEC Display Solutions, Ltd., NEC Corporation of America, NEC Asia Pacific Pte. Ltd., NEC Latin America S.A., NEC Europe Ltd, NEC (China) Co., Ltd., NEC Energy Solutions, Inc., Netcracker Technology Corp., KMD A/S, Northgate Public Services (UK) Ltd., and others
Others	NEC Solution Innovators, Ltd. NEC Facilities, Ltd. NEC Communication Systems, Ltd., NEC Management Partner, Ltd. and others

Note: Subsidiary whose shares are listed on the financial instruments exchange:
TSE First Section- Japan Aviation Electronics Industry Ltd., and NEC Networks & System Integration Corp.

The diagram below shows the business system of the Company and affiliated companies in the NEC Group business operations.

As of March 31, 2020



Note: Arrows indicate the design, development, manufacture and sale of the product and the service providing relationship.

3. Basic View of Selected Accounting Standards

The NEC Group has applied International Financial Reporting Standards (IFRS) since the year ended March 31, 2017 in order to enhance the international comparability of its financial information in capital markets.

4. Consolidated Financial Statements and Notes to Consolidated Financial Statements

(1)Consolidated Statements of Financial Position

JPY (millions)

	Notes	As of March 31, 2019	As of March 31, 2020
Assets			
Current Assets			
Cash and cash equivalents		278,314	359,252
Trade and other receivables		734,431	737,484
Contract assets		265,725	247,625
Inventories		234,621	199,326
Other financial assets		5,875	5,584
Other current assets		110,199	108,436
Subtotal		1,629,165	1,657,707
Assets held for sale	3	9,071	41,210
Total current assets		1,638,236	1,698,917
Non-current assets			
Property, plant and equipment, net	1	408,821	558,077
Goodwill		188,183	182,334
Intangible assets, net		218,581	199,093
Investments accounted for using the equity method		72,421	74,092
Other financial assets		250,409	219,326
Deferred tax assets		150,511	165,183
Other non-current assets		36,060	26,232
Total non-current assets		1,324,986	1,424,337
Total assets		2,963,222	3,123,254

Consolidated Statements of Financial Position (Continued)

JPY (millions)

	Notes	As of March 31, 2019	As of March 31, 2020
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables		482,596	460,881
Contract liabilities		184,059	195,152
Bonds and borrowings		158,678	154,992
Accruals		178,911	191,440
Lease liabilities		—	47,085
Other financial liabilities		16,169	14,995
Accrued income taxes		8,296	12,624
Provisions		58,448	59,412
Other current liabilities		61,985	55,153
Subtotal		1,149,142	1,191,734
Liabilities directly associated with assets held for sale	3	9,071	30,133
Total current liabilities		1,158,213	1,221,867
Non-current liabilities			
Bonds and borrowings		388,128	364,828
Lease liabilities		—	108,514
Other financial liabilities		47,417	42,402
Net defined benefit liabilities		241,759	224,469
Provisions		24,803	12,369
Other non-current liabilities		43,221	34,282
Total non-current liabilities		745,328	786,864
Total liabilities		1,903,541	2,008,731
Equity			
Share capital		397,199	397,199
Share premium		138,824	139,735
Retained earnings		354,582	436,361
Treasury shares		(3,547)	(4,157)
Other components of equity	2	(28,119)	(58,464)
Total equity attributable to owners of the parent		858,939	910,674
Non-controlling interests		200,742	203,849
Total equity		1,059,681	1,114,523
Total liabilities and equity		2,963,222	3,123,254

(2) Consolidated Statements of Profit or Loss and Comprehensive Income

Consolidated Statements of Profit or Loss

JPY (millions)

Fiscal year ended March 31	Notes	2019	2020
Revenue		2,913,446	3,095,234
Cost of sales		2,083,517	2,207,675
Gross profit		829,929	887,559
Selling, general and administrative expenses		743,021	752,690
Other operating expenses		(29,128)	(7,260)
Operating Profit		57,780	127,609
Finance income	1	21,989	8,477
Finance costs	1	8,377	15,464
Share of profit of entities accounted for using the equity method		5,916	3,347
Profit before income taxes		77,308	123,969
Income taxes		25,378	11,250
Net profit		51,930	112,719
Net profit attributable to			
Owners of the parent		39,675	99,967
Non-controlling interests		12,255	12,752
Total		51,930	112,719
Earnings per share attributable to owners of the parent			
Basic earnings per share (JPY)		152.75	385.02
Diluted earnings per share (JPY)		152.75	385.01

Consolidated Statements of Comprehensive Income

JPY (millions)

Fiscal year ended March 31	Notes	2019	2020
Net profit		51,930	112,719
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Equity instruments designated as measured at fair value through other comprehensive income		(3,035)	(20,297)
Remeasurements of defined benefit plans		(40,348)	2,160
Share of other comprehensive income of entities accounted for using the equity method		(371)	(84)
Total items that will not be reclassified to profit or loss		(43,754)	(18,221)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		(735)	(14,776)
Cash flow hedges		(61)	22
Share of other comprehensive income of entities accounted for using the equity method		26	(175)
Total items that may be reclassified subsequently to profit or loss		(770)	(14,929)
Total other comprehensive income, net of tax		(44,524)	(33,150)
Total comprehensive income		7,406	79,569
Total comprehensive income attributable to			
Owners of the parent		(4,955)	69,622
Non-controlling interests		12,361	9,947
Total		7,406	79,569

(3) Consolidated Statements of Changes in Equity

(Fiscal year ended March 31, 2019)

JPY (millions)

	Notes	Equity attributable to owners of the parent						Non-controlling interests	**Total equity**
		Share capital	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
As of April 1, 2018		397,199	138,704	265,879	(3,364)	82,415	880,833	173,452	1,054,285
Impact of changes in accounting policies		—	—	64,619	—	(65,904)	(1,285)	—	(1,285)
Recalculated beginning balance		397,199	138,704	330,498	(3,364)	16,511	879,548	173,452	1,053,000
Net profit		—	—	39,675	—	—	39,675	12,255	51,930
Other comprehensive income (loss)		—	—	—	—	(44,630)	(44,630)	106	(44,524)
Comprehensive income		—	—	39,675	—	(44,630)	(4,955)	12,361	7,406
Purchase of treasury shares		—	—	—	(215)	—	(215)	—	(215)
Disposal of treasury shares		—	2	—	32	—	34	—	34
Cash dividends	2	—	—	(15,591)	—	—	(15,591)	(4,302)	(19,893)
Put option, written over shares held by a non-controlling interest shareholder		—	836	—	—	—	836	—	836
Changes in interests in subsidiaries		—	(718)	—	—	—	(718)	19,231	18,513
Total transactions with owners		—	120	(15,591)	(183)	—	(15,654)	14,929	(725)
As of March 31, 2019		397,199	138,824	354,582	(3,547)	(28,119)	858,939	200,742	1,059,681

Note: The cumulative impact of changes in accounting policies is due to the application of IFRS 9,“Financial Instruments (2014)” and IFRS 15,“Revenue from Contracts with Customers”.

(Fiscal year ended March 31, 2020)

JPY (millions)

	Notes	Equity attributable to owners of the parent						Non-controlling interests	**Total equity**
		Share capital	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
As of April 1, 2019		397,199	138,824	354,582	(3,547)	(28,119)	858,939	200,742	1,059,681
Net profit		—	—	99,967	—	—	99,967	12,752	112,719
Other comprehensive income (loss)		—	—	—	—	(30,345)	(30,345)	(2,805)	(33,150)
Comprehensive income		—	—	99,967	—	(30,345)	69,622	9,947	79,569
Purchase of treasury shares		—	—	—	(674)	—	(674)	—	(674)
Disposal of treasury shares		—	(0)	—	63	—	63	—	63
Cash dividends	2	—	—	(18,188)	—	—	(18,188)	(4,941)	(23,129)
Put option, written over shares held by a non-controlling interest shareholder		—	912	—	—	—	912	—	912
Changes in interests in subsidiaries		—	0	—	—	—	0	(1,899)	(1,899)
Total transactions with owners		—	912	(18,188)	(611)	—	(17,887)	(6,840)	(24,727)
As of March 31, 2020		397,199	139,735	436,361	(4,157)	(58,464)	910,674	203,849	1,114,523

(4)Consolidated Statements of Cash Flows

JPY (millions)

Fiscal year ended March 31	Notes	2019	2020
Cash flows from operating activities			
Profit before income taxes		77,308	123,969
Depreciation and amortization		99,745	166,360
Impairment loss		12,607	6,384
(Decrease) increase in provisions		15,101	(5,639)
Finance income		(21,989)	(8,477)
Finance costs		8,377	15,464
Share of profit of entities accounted for using the equity method		(5,916)	(3,347)
Decrease (increase) in trade and other receivables		(41,470)	(26,263)
(Increase) decrease in contract assets		(16,951)	11,911
(Increase) decrease in inventories		(16,716)	11,430
Increase in trade and other payables		4,415	1,653
Increase in contract liabilities		21,500	11,536
Other, net		(48,544)	(20,517)
Subtotal		87,467	284,464
Interest and dividends received		7,580	6,947
Interest paid		(6,350)	(9,052)
Income taxes paid		(24,462)	(20,496)
Net cash provided by operating activities		64,235	261,863
Cash flows from investing activities			
Purchases of property, plant and equipment		(48,929)	(72,825)
Proceeds from sales of property, plant and equipment		4,283	6,903
Acquisitions of intangible assets		(11,764)	(16,372)
Purchase of equity instruments designated as measured at fair value through other comprehensive income		(7,375)	(1,820)
Proceeds from sales of equity instruments designated as measured at fair value through other comprehensive income		2,293	12,279
Purchase of shares of newly consolidated subsidiaries		(47,930)	(6,935)
Increase in cash flows resulting in change in scope of consolidation, net of consideration transferred		17	52
Proceeds from sales of shares of subsidiaries		20,230	—
Decrease in cash flows resulting in change in scope of consolidation, net of consideration transferred		—	(220)
Purchases of investments in associates or joint ventures		(1,148)	(376)
Proceeds from sales of investments in associates or joint ventures		13,816	2,098
Proceeds from collection of loans receivable		94	44
Other, net		(262)	(6,851)
Net cash used in investing activities		(76,675)	(84,023)

Consolidated Statements of Cash Flows (Continued)

JPY (millions)

Fiscal year ended March 31	Notes	2019	2020
Cash flows from financing activities			
Increase (decrease) in short-term borrowings, net		48,234	(4,349)
Proceeds from long-term borrowings		9,681	37,879
Repayments of long-term borrowings		(157,778)	(48,723)
Proceeds from issuance of bonds		50,011	—
Repayments of lease liabilities		—	(53,620)
Proceeds from sales of interests in subsidiaries to non-controlling interests		18,810	—
Dividends paid		(15,586)	(18,177)
Dividends paid to non-controlling interests		(4,261)	(4,939)
Other, net		386	182
Net cash used in financing activities		(50,503)	(91,747)
Effect of exchange rate changes on cash and cash equivalents		(1,275)	(4,496)
Net increase (decrease) in cash and cash equivalents		(64,218)	81,597
Cash and cash equivalents, at beginning of the year		346,025	278,314
Decrease in cash and cash equivalents resulting from transfer to assets held for sale		(3,493)	(659)
Cash and cash equivalents, at end of the year		278,314	359,252

(5) Notes to Consolidated Financial Statements

1. Going Concern Assumptions

Not applicable.

2. Changes in Accounting Policies

The NEC Group has adopted IFRS 16 effective from the fiscal year ended March 31, 2020. The details are listed in “4. Consolidated Financial Statements and Notes to Consolidated Financial Statements- (5) Notes to Consolidated Financial Statements- 4. Significant Accounting Policies- Leases” and “4. Consolidated Financial Statements and Notes to Consolidated Financial Statements - (5) Notes to Consolidated Financial Statements- 8. Impact of Changes in Accounting Policies”.

3. Changes in Presentation Method

The NEC Group has revised its presentation method for the purpose of providing more useful information regarding the notes to the consolidated financial statements for the fiscal year ended March 31, 2020. As a result, disclosure of some insignificant information has been omitted.

4. Significant Accounting Policies

Unless otherwise stated, accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

Basis of Consolidation

Subsidiaries

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Subsidiaries are entities that are directly or indirectly controlled by the Company. The NEC Group controls an entity when the NEC Group is exposed or has rights to variable returns from involvement with the entity, and has the ability to affect those returns by using its power, which is the current ability to direct the relevant activities, over the entity. To determine whether or not the NEC Group controls an entity, status of voting rights or similar rights, contractual agreements, and other specific factors are considered.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the controls are obtained until the date when the control is lost. The financial statements of subsidiaries have been adjusted in order to conform to the accounting policies adopted by the Company as necessary.

Changes in the Company’s ownership interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. Any differences between the adjustment to non-controlling interest and fair value of consideration transferred or received are recognized directly in equity attributable to owners of the Company.

When control over a subsidiary is lost, the investment retained after the loss of control is re-measured at fair value as of the date when control is lost, and any gain or loss on such re-measurement and disposal of the interest sold is recognized in profit or loss.

Investments in Associates and Joint Arrangements

Associates are entities over which the NEC Group has significant influence over the decisions on financial and operating policies, but does not have control or joint control.

Joint arrangements are arrangements of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The NEC

Group classifies joint arrangements into either joint ventures or joint operations. The classification of a joint arrangement as a joint venture or a joint operation depends upon the rights and obligations of the parties to the arrangement. Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. There are no joint operations that are considered material to the NEC Group.

Investment in associates and joint ventures are accounted for using the equity method and recognized at cost on the acquisition date. The carrying amount is subsequently increased or decreased to recognize the NEC Group's share of profit or loss and other comprehensive income of the associates and joint ventures after the date of initial recognition.
The financial statements of associates and joint ventures have been adjusted in order to conform to the accounting policies adopted by the Company in applying the equity method, as necessary.
Impairment of an investment in associates and joint ventures is measured by comparing the recoverable amount and the carrying amount of the investment. The impairment loss is recognized in profit or loss. If there has been a change in the estimates used to determine the recoverable amount and the recoverable amount increases, the impairment loss is reversed.

Business Combinations
Business combinations are accounted for using the acquisition method.
The consideration transferred for the acquisition of a subsidiary is measured at fair value of the assets transferred, the liabilities incurred to former owners of the acquiree, and the equity interests issued by the NEC Group.
The consideration for certain acquisitions includes payments that are contingent upon future events, such as the achievement of milestones and sales targets.

Identifiable assets acquired and liabilities and certain contingent liabilities assumed are measured at the fair values at the acquisition date. Non-controlling interests are initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amount of the acquiree's identifiable net assets on a transaction-by-transaction basis.
Goodwill is measured as the excess of the sum of the fair value of consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest less the fair value of identifiable assets acquired, net of liabilities assumed at the acquisition date.

Acquisition related costs, such as agency, legal, and other professional, or consulting fees are recognized as expenses in the period they are incurred.

Foreign Currency Translation
Foreign Currency Transactions
Transactions in foreign currencies are translated into the respective functional currencies of the NEC Group companies using the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rate at the end of each reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated into the functional currency using the exchange rate at the transaction date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency using the historical exchange rates at the date when the fair value was determined. Exchange differences arising from the settlement or translation of monetary items are recognized in profit or loss except for exchange differences arising from financial assets measured at fair value through other comprehensive income and qualifying hedging instruments in cash flow hedges to the extent that the hedges are effective, which are recognized in other comprehensive income.

Foreign Operations
The assets and liabilities of foreign operations are translated into Japanese yen using the exchange rate prevailing at the reporting date and their income and expenses are translated into Japanese yen using the average exchange rate for the period, unless the exchange rate fluctuates significantly. The foreign exchange differences arising on translation are recognized in other comprehensive income. In cases foreign operations are disposed of, the cumulative amount of other comprehensive income relating to that particular foreign operation is reclassified to profit or loss as part of gains and losses on the disposal.

Financial Instruments
Non-derivative Financial Assets
The NEC Group classifies non-derivative financial assets into financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, or financial assets measured at fair value through profit or loss. The NEC Group has irrevocably elected to designate all equity instruments, except for those in the form of venture capital investments, basically as financial assets measured at fair value through other comprehensive income.
The NEC Group initially recognizes financial assets measured at amortized cost on the date they originated. All other financial assets are initially recognized in the consolidated statements of financial position when the NEC Group becomes a party to the contractual provisions of the financial instruments.
The NEC Group derecognizes financial assets when the contractual rights to the cash flows from the asset expire, or when the NEC Group transfers the contractual rights to the cash flows from the asset, as well as substantially all the risks and rewards of ownership of the financial asset. Separate assets or liabilities are recognized when the NEC Group derecognizes financial assets, but still retains an interest that does not result in the retention of control over the financial asset.

Financial assets held by the NEC Group are measured at amortized cost when both of the following conditions are met:
- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are initially measured at fair value, plus any directly attributable transaction costs. Trade receivables that do not contain a significant financing component are measured at their transaction price. After initial recognition, the carrying amounts of financial assets measured at amortized cost are recognized using the effective interest method, less impairment loss. Amortization using the effective interest method and gains and losses on derecognition are recognized in profit or loss for the period.

The NEC Group has basically elected to present subsequent changes in fair value of certain equity instruments in other comprehensive income except for those in the form of venture capital investments. These equity instruments are initially measured at fair value, plus any directly attributable transaction costs and measured at fair value in subsequent periods. Changes in fair value are included in other comprehensive income and never reclassified to profit or loss and the NEC Group never reclassifies accumulated other comprehensive income to retained earnings subsequently. Dividends from equity instruments designated as measured at fair value through other comprehensive income are recognized as finance income in profit or loss, unless the dividends clearly represent a recovery of part of the cost of the investment.

Financial assets other than financial assets measured at amortized cost or equity instruments designated as measured at fair value through other comprehensive income are classified as financial instruments measured at fair value through profit or loss. These financial assets are measured at fair value after initial recognition, and changes in their fair value are recognized in profit or loss. Gains and losses on financial instruments measured at fair value through profit or loss are recognized in profit or loss.

Impairment of Financial Assets
As for impairments on financial assets measured at amortized costs, the NEC Group recognizes allowances for expected credit losses by assessing whether the credit risk on the financial assets has increased significantly at each reporting date since initial recognition. Allowances are measured based on the estimated credit loss arising from the possible defaults during the 12 months after the reporting date (12-month expected credit loss) when the credit risk associated with the financial assets has not significantly increased since initial recognition. When the credit risk associated with the financial assets has significantly increased since initial recognition or the financial assets are credit-impaired, an allowance for expected credit loss is calculated based on the estimated credit loss arising from all possible defaults over the estimated remaining period of the financial instruments (life-time expected credit loss). Notwithstanding the above, an allowance for expected credit loss on trade receivables and contract assets is always calculated based on the estimated credit loss over the entire period. Significant increase in credit risk is determined based on changes in risks of a default occurring and the changes in such risks are determined considering significant financial difficulty, breach of contract, or increase in probability where the borrower will enter bankruptcy or other financial reorganization. Changes in allowances are recognized in profit and loss.

Non-derivative Financial Liabilities
The NEC Group classifies non-derivative financial liabilities into financial liabilities measured at amortized cost. The NEC Group recognizes debt securities on the date of issuance. All other financial liabilities are initially recognized on the date when the NEC Group becomes a party to contractual provisions. The NEC Group derecognizes a financial liability when its contractual obligations are discharged, canceled, or expired. These financial liabilities are measured initially at fair value less any directly attributable transaction costs and subsequently measured at amortized cost using the effective interest method. Amortization amounts are recognized as finance costs in profit or loss.

Derivative Financial Instruments
The NEC Group holds derivative financial instruments, such as forward exchange contracts, interest rate swaps, and currency options, to hedge foreign currency exposure and interest rate exposures. Derivatives are measured at fair value at the inception and subsequent periods. At the inception of a hedge relationship, derivatives designated as hedging instruments are classified as either cash flow hedge, fair value hedge, or hedge of a net investment. For derivatives that are not designated as hedging instruments, any changes in the fair value of the derivative are recognized in profit or loss. For derivatives that are designated as hedging instruments, the NEC Group documents the relationship between the hedging instrument and hedged item, risk management objectives and strategy in undertaking the hedge transaction and the hedged risk at the inception of the hedges. The NEC Group initially and continually assesses whether the hedging instruments are highly effective in offsetting changes in the fair value or the cash flows of the respective hedged items. The NEC Group does not currently have derivatives that are designated as hedging instruments in a fair value hedge nor net investment hedge relationship.

Cash Flow Hedges
The effective portion of changes in the fair value of derivatives is recognized in other comprehensive income and any ineffective portion of changes in the fair value is immediately recognized in profit or loss. The amount accumulated in other components of equity is reclassified to profit or loss in the same period during which the cash flows of the hedged item affect profit or loss. Hedge accounting is discontinued prospectively when the hedging instrument expires, is sold, terminated, exercised, when no longer meets the criteria for hedge accounting, a forecast transaction is no longer highly probable, or the designation is revoked.
In addition, the NEC Group has selected the option to continue to apply hedge accounting of International Accounting Standards (IAS) 39 .

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value, and redeemable in three months or less from each acquisition date.

Property, Plant and Equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenses directly attributable to acquisition of the asset, costs of dismantling and removing the assets, costs of restoring the site, and borrowing costs to be capitalized. When significant components of property, plant and equipment have different useful lives, they are accounted for as separate items (by major components) of property, plant and equipment. Gains or losses on disposals of property, plant and equipment are recognized in profit or loss.

Except for assets that are not subject to depreciation, such as land and construction in progress, assets are depreciated mainly using the straight-line method over the estimated useful lives of assets. The residual value is generally estimated at zero, except for the cases where the selling price, after deducting the costs of disposal, at the end of the useful lives is estimable.

The estimated useful lives of major property, plant and equipment are as follows:

Buildings and structures	7 - 60 years
Machinery and equipment	2 - 22 years
Tools, furniture and fixtures	2 - 20 years

Depreciation methods, useful lives, and residual values of assets are reviewed at the end of each reporting period and revised, as necessary.

Goodwill

An asset representing the future economic benefits arising together with other assets through the acquisition of a subsidiary that are not individually identifiable is recognized as Goodwill. Goodwill is not amortized, but is tested for impairment at least annually or more frequently whenever there is any indication of impairment for a cash-generating unit (“CGU”) to which goodwill is allocated. The NEC Group initially measures goodwill at the acquisition date as the excess of the aggregate of consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity, less the net recognized amount of the identifiable assets acquired and liabilities assumed. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase gain.

Intangible Assets

Development expenditures on software for sale and software for internal use are recognized as intangible assets, if all of the following criteria of capitalization are met:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Other intangible assets, such as patents and licenses, are recognized at cost when acquired. Intangible assets acquired in business combinations and recognized separately from goodwill, including acquired capitalized development costs, are recognized at fair value at the acquisition date.

Intangible assets with definite useful lives are amortized mainly on a straight-line basis over their estimated useful lives from the date when the assets are available for use. Amortization of intangible assets is included in cost of sales and selling, general and administrative expenses. Customer relationship is amortized on a straight-line basis over the estimated useful lives. Software for sale is amortized based on the expected sales volume over the expected effective period unless such amortization method does not reflect the pattern of consumption of the expected future benefits from the asset. In such cases, software for sale is amortized on a straight-line basis over the remaining useful life. Software for internal use is amortized on a straight-line basis over the estimated useful lives. Other intangible assets, such as patents and licenses, are amortized from the date when the asset is available for use over the estimated useful lives, such as a contract period, using the method that reflects the pattern of consumption of the future economic benefits by the NEC Group.

The estimated useful lives of major intangible assets are as follows:

Software for sale	1 - 8 years
Software for internal use	3 - 5 years
Customer relationship	3 - 19 years
Acquired capitalized development costs	7 - 17 years
Others	2 - 10 years

Amortization methods, useful lives, and residual values of intangible assets with definite useful lives are reviewed at the end of each reporting period and revised as necessary.

Leases

During the fiscal year ended March 31, 2020, the NEC Group has adopted IFRS 16 using the transition method under IFRS 16 that recognizes the cumulative effect of the adoption of IFRS 16 as of the date of initial application on April 1, 2019. Accordingly, the comparative information as of March 31, 2019 and for the fiscal years ended March 31, 2018 and 2019 has not been restated and continues to be reported under IAS 17, "Leases" ("IAS 17"). The accounting policies of the NEC Group under IAS 17 and IFRS 16 are as follows. Please also refer to"8. Impact of Changes in Accounting Policies" for the details of change in accounting standards regarding IFRS 16.

The accounting policies applicable before April 1, 2019, for the fiscal years ended March 31, 2019

The NEC Group classifies a lease as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the NEC Group. Leases other than finance leases are classified as operating leases.

A leased asset or liability under a finance lease is measured at the lower of fair value of the leased asset or the present value of the minimum lease payments. Subsequently, the leased asset is depreciated over the shorter of the lease term or the economic useful life of the leased asset.

Minimum lease payments made under finance leases are allocated between finance costs and reduction of the remaining balance of the lease liability. The finance cost on the lease liability in each accounting period during the lease term are the amount that produces a constant periodic rate of interest on the remaining balance of the liability.

Lease payments made under an operating lease are recognized as an expense on a straight-line basis over the lease term.

The accounting policies applicable after April 1, 2019, for the fiscal year ended March 31, 2020

At inception of a contract, the NEC Group assesses whether the contract is, or contains, a lease. The NEC Group determines a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In addition, the NEC Group elected not to recognize right-of-use assets and lease liabilities for either short-term leases with a lease term of 12 months or less or leases for which the underlying assets are of low value. The NEC Group recognizes the lease payments associated with those leases as an expense on a straight-line basis over their lease term.

As a lessee
At the commencement date of a lease, the NEC Group recognizes right-of-use assets that represent the right to use an underlying asset and a lease liability that represents its obligation to make lease payments. The lease liabilities are measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease, if it is readily determinable, or otherwise, the lessee's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the NEC Group is reasonably certain to exercise; and
- penalties for early termination of a lease unless the NEC Group is reasonably certain not to terminate the lease early.

The lease liability is subsequently measured at amortized cost using the effective interest method, and is remeasured under certain circumstances, such as when there is a change in future lease payments arising from a change in an index or a rate, if there is a change in the NEC Group’s estimate of the amount expected to be payable under a residual value guarantee, or if the NEC Group changes its assessment of whether it will exercise a purchase, extension or termination option.

The right-of-use assets are initially measured at the initial measurement amount of the lease liabilities adjusted for any prepaid lease payments before the commencement date and certain other items, and are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the underlying asset or the end of the lease term. The estimated useful lives of the underlying assets are determined on the same basis as those of property, plant and equipment. In addition, after the commencement date, the right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment losses, adjusted for remeasurements of the lease liability. The right-of-use assets are presented as part of property, plant, and equipment, net.

Inventories
Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined principally by using the first-in first-out method or the periodic average method, whereas the cost of inventories of items that are not interchangeable is determined by using the specific identification of their individual cost. Cost of inventories comprises all costs of purchase, costs of production, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Costs of finished goods and work in process include an allocation of production overheads that are based on the normal capacity of the production facilities. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Impairment of Non-Financial Assets
Non-financial assets other than inventories, deferred tax assets, assets held for sale, assets arising from employee benefits and contract assets and assets recognized from costs to obtain a contract with a customer are assessed for indications of impairment at the end of each reporting period. This assessment is performed for an asset or a CGU, which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. An impairment loss is recognized in profit or loss and the carrying amount is reduced to the recoverable amount. The recoverable amount is determined for an individual asset, or a CGU when the individual asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. The NEC Group’s corporate assets do not generate independent cash inflows. If there is any indication that corporate assets may be impaired, the recoverable amount is estimated for the CGU to which the corporate assets belong. Corporate

assets are assets other than goodwill that contribute to the future cash flows of both the CGU to which the corporate assets belong and other CGUs, and include land or buildings held by administrative departments.

The recoverable amount is the higher of the fair value of an asset or a CGU, less costs of disposal and its value in use. Value in use is calculated as the present value of the estimated future cash flows associated with the asset or CGU. In assessing value in use, the estimated future cash flows are discounted to the present value using a pre-tax discount rate, which reflects current market assessments of the time value of money and any risks specific to the asset or the CGU.

For goodwill and intangible assets with indefinite useful lives, the recoverable amount is estimated at the same time each year for the level of a CGU to which goodwill and intangible assets with indefinite lives have been allocated, and they are also tested for impairment whenever there is any indication of impairment.

An impairment loss recognized in prior periods for an asset other than goodwill is reversed if there is any indications that the loss recognized for the asset may no longer exist or may have decreased, and if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Impairment losses are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized. Impairment losses on goodwill are not reversed.

Assets Held for Sale
A non-current asset or disposal group is classified as held for sale if its carrying amount will be recovered through a sale transaction rather than through its continuing use. The condition above is met only when the asset is available for immediate sale in its present condition and its sale is highly probable. If the NEC Group commits to a sale plan involving loss of control of a subsidiary, it classifies all the assets and liabilities of the subsidiary as held for sale when the criteria set out above are met, regardless of whether it will retain a non-controlling interest in its former subsidiary after the sale. Non-current assets or disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortized.

Employee Benefits
Defined Benefit Plans
The NEC Group's defined benefit plans consist of defined benefit pension plans and lump-sum severance payment plans. For defined benefit plans, the present value of defined benefit obligations, less the fair value of plan assets is recognized as either liability or asset. Defined benefit obligations are measured separately for each plan by discounting estimated amount of future benefits employees have earned in return for their services in the current and prior periods to its present value. The discount rate is the yield at the reporting date on high-quality corporate bonds that is consistent with the currency and estimated terms of the NEC Group's post-employment benefit obligations. The NEC Group uses the projected unit credit method to determine the present value of defined benefit obligations, service cost, and the past service cost for each defined benefit obligation. Past service costs arising from a plan amendment or curtailment are recognized in profit or loss upon occurrence of the plan amendment or curtailment. Remeasurement of net defined benefit plans is recognized in full as other comprehensive income and not reclassified to retained earnings in subsequent periods.

Defined Contribution Pension Plans
Defined contribution pension plans are post-employment benefit plans under which the NEC Group pays fixed contributions to a separate entity (fund) and has no legal or constructive obligations to pay further amounts. Contributions to defined contribution pension plans are recognized as expense in profit or loss when the employees render related services.

Provisions

Provisions are recognized when the NEC Group has present legal or constructive obligations as a result of past events, it is probable that outflows of resources embodying economic benefits will be required to settle the obligations and reliable estimates can be made of the amount of the obligations.

Revenue

In accordance with IFRS 15, the following five-step approach is applied to recognize revenue, except for interest and dividend income within the scope of IFRS 9 and lease payments within the scope of IAS 17 or IFRS 16.

Step 1: Identify the contract with a customer
Step 2: Identify performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation in the contract
Step 5: Recognize revenue when (or as) each performance obligation is satisfied

Identifying Distinct Performance Obligations in Contracts with Customers

The NEC Group recognizes revenue from contracts with customers for contracts for hardware and packaged software deployments, for services to customers and for system integrations and equipment constructions. The NEC Group identifies distinct promised goods or services (i.e., performance obligations) within these contracts and accounts for revenue in accordance with their performance obligations. The NEC Group separately accounts for the good or service, if a promised good or service is distinct where the NEC Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contracts, and a customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer.

Determining the Transaction Price

The NEC Group considers the effects of variable consideration, constraining estimates of variable consideration, the existence of a significant financing component in the contract, non-cash consideration, and consideration payable to a customer when determining the transaction price. The NEC Group recognizes a variable consideration, which consists primarily of sales incentives that are offered to wholesalers and retailers as part of the NEC Group's sales promotion activities. When there is a possibility of subsequent variability in the consideration receivable from these customers, the variable consideration is estimated and included in revenue to the extent that it is highly probable that its inclusion will not result in a significant reversal in the amount of cumulative revenue recognized when the uncertainty has been subsequently resolved. When estimating the sales incentives, NEC Group uses the expected value method considering the historical experience of sales by customers and products. In assessing whether a contract contains a financing component and whether that financing component is significant to the contract, the NEC Group considers the difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services. The NEC Group also considers the combined effect of the expected length of time between when it transfers the promised goods or services to the customer and when the customer pays for those goods or services and the prevailing interest rates in the relevant market.

Allocating the Transaction Price to Performance Obligation

The NEC Group allocates the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which it expects to be entitled in exchange for transferring the promised goods or services to the customer. To allocate the transaction price to each performance obligation on a relative stand-alone selling price basis, the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract is determined and the transaction price is allocated in proportion to those stand-alone selling prices. A stand-alone selling price is estimated if it is not directly observable. For contracts for hardware and packaged software deployments, the NEC Group estimates stand-alone selling prices mainly based on adjusted market assessment approach.

For contracts for services to customers and for system integrations and equipment constructions, the NEC Group estimates stand-alone selling price mainly based on expected cost plus a margin approach.

Satisfaction of Performance Obligation

The NEC Group recognizes revenue when or as the NEC Group satisfies a performance obligation at a point in time or over time by transferring a promised good or service to a customer.

The NEC Group recognizes revenue over time if one of the following criteria is met; (i) the customer simultaneously receives and consumes the benefits provided by the NEC Group's performance as the NEC Group performs, ii) the NEC Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or iii) the NEC Group's performance does not create an asset with an alternative use to the NEC Group and it has an enforceable right to payment for performance completed to date. If none of the above is met, the NEC Group recognizes revenue at a point in time when it is determined that control of an asset is transferred to a customer.

Performance Obligations and Revenue Measurement Methods by Type of Goods or Services

Contracts for Hardware and Packaged Software Deployments

The major transactions regarding revenue from contracts for hardware and packaged software deployments are hardware (servers, mainframes, supercomputers, storage, business PCs, POS, ATMs, control equipment, wireless LAN routers), software (integrated operation management, application servers, security, database software), enterprise network solutions (IP telephony systems, WAN/wireless access equipment, LAN products), network infrastructure (core network, mobile phone base stations, optical transmission systems, routers / switches, mobile backhaul), system devices (displays, projectors) and lighting equipment.

The NEC Group recognizes revenue when control over goods is transferred to customers. To determine the point in time at which the control is transferred to the customer, the NEC Group considers whether or not a) the NEC Group has a present right to payment for the asset; b) the customer has legal title to the asset; c) the NEC Group has transferred physical possession of the asset; d) the customer has the significant risks and rewards related to the ownership of the asset; and e) the customer has accepted the asset. This transfer generally corresponds to the date of the inspection by the customer.

Revenue on Hardware requiring significant services, including installation, such as servers and network products, is in principle recognized upon the customer's acceptance. Revenue on standard Hardware, such as personal computers and electronic devices, is recognized in principle upon delivery, where the control of the Hardware is transferred to the customer.

Contracts for Services to Customers (Including Maintenance and Outsourcing)/Contracts for System Integrations and Equipment Constructions

The major transactions regarding revenue from contracts for services to customers/system integrations and equipment constructions are systems integration (systems implementation, consulting), safety (biometric solutions, surveillance and others), software & services for service providers (Operation Support System (OSS)/ Business Support System (BSS), Software-Defined Networking (SDN), Network Functions Virtualization (NFV)), services & management (OSS/BSS, and service solutions), network infrastructure (submarine systems), energy storage system, outsourcing/cloud services, data center infrastructure services and maintenance and support.

Supply of the above services usually corresponds to any of the following criteria: a) the customer simultaneously receives and consumes all of the benefits provided by the NEC Group as the NEC Group performs; b) the NEC Group's performance creates or enhances an asset that the customer controls as the asset is created; or c) the NEC Group's performance does not create an asset with an alternative use to the NEC Group and the NEC Group has an enforceable right to payment for performance completed to date and, therefore, is a performance obligation that is satisfied over time. If the progress toward complete satisfaction of the performance obligation can be reasonably measured, revenue from a service is recognized by measuring the progress. If the progress cannot be reasonably measured, revenue from a service is recognized only to the extent of the costs incurred if the NEC Group expects to recover the costs until such time that the outcome of the performance obligation can be reasonably measured.

Revenue for fixed price service contracts, including construction contracts is in principle recognized by the method of measuring the progress based on the costs incurred to date as a percentage of the total estimated project costs. When milestones for the obligations to be performed by the NEC Group are defined at contract inception, revenue is recognized based on completion of the contractual milestones.
Revenue on ongoing service contracts is recognized by measuring the progress based on the period of services already provided over the entire service period. Where outsourcing services are charged on a per unit basis, such as data usage, revenue is recognized when the service is provided. Where services are charged on a time period basis, revenue is recognized evenly over the period of the service contract. For maintenance, in principle revenue is recognized over the period in which the services are provided; however, where the contracts are charged on a time basis, revenue is recognized on a time and materials basis.

Where changes occur in the initial estimates of revenues, measure of progress, and costs incurred for a contract, the cumulative impact arising from a change of estimates is recognized in profit or loss in the period in which the changes become certain and possible to be estimated.

Contracts with Multiple Performance Obligations
Contracts with multiple performance obligations represent one contract that consists of several types of goods or services, such as supply of Hardware and related services or supply of software sales and support services. Goods or services promised to a customer are identified as a distinct performance obligation if the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e., the good or service is capable of being distinct); and the NEC Group’s promise to transfer the goods or service to the customer is separately identifiable from other promises in the contract (i.e., the promise to transfer the good or service is distinct within the context of the contract).
The transaction price is allocated to each performance obligation on a relative stand-alone selling price basis, as mentioned above.

Methods for Measuring Progress
When revenue is recognized over time, the NEC Group measures the progress to depict the performance in transferring control of goods or services promised to a customer. Revenue is recognized for a performance obligation satisfied over time only if the progress can be reasonably measured as mentioned above. When the progress cannot be measured reasonably, revenue is recognized only to the extent of the costs incurred also as mentioned above.

Product Warranty
The NEC Group repairs or exchanges products for free of charge to honor warranty within the warranty period after the sale of products or delivery of developed software based on contracts. Product warranty liabilities are recognized for individually estimated future warranty costs using the historical ratio of warranty costs to net sales or other relevant factors, considering the additional incremental costs that are expected to be incurred. If a product warranty is purchased separately or purchased in addition to the standard warranty by a customer, the product warranty is identified as a separate performance obligation. The transaction price is allocated to the performance obligation and revenue is recognized for the allocated amount over a warranty period.

Contract Asset and Contract Liability
Contract asset is an entity’s right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (i.e., the entity’s future performance) and contract liability is an entity’s obligation to transfer goods or services to a customer for which the entity has received consideration or the amount is due from the customer. Advances received from construction contracts are recorded as “contract liabilities” in the consolidated statements of financial position.

Incremental Costs of Obtaining a Contract
An asset is recognized for the incremental costs of obtaining a contract with a customer if those costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that the NEC Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. The costs are amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

Income Taxes
Income tax expenses comprise current and deferred taxes, both of which are recognized in profit or loss, except for the tax arising from transactions which are recognized either directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on taxable profit or tax losses for the reporting period, using tax rates and tax laws enacted or substantively enacted at the end of the reporting period.

Deferred taxes are calculated based on the temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, and unused tax losses carryforward at the end of the reporting period.

Deferred tax assets and liabilities are not recognized for the following temporary differences:
- Temporary differences on the initial recognition of an asset or liability in a transaction which is not a business combination and that affects neither accounting nor taxable profit nor loss;
- Temporary differences arising from investments in subsidiaries, associates, and joint arrangements to the extent that it is probable that the temporary difference will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to the period in which the temporary differences are expected to reverse based on the tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities are for those related to income taxes levied by the same taxation authority on the same taxable entity.

A deferred tax asset is recognized for the carryforward of unused tax losses, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which they can be utilized.
The amount of deferred tax assets is reduced to the extent that it is no longer probable that future taxable income would be sufficient to allow the benefit of part or all of the deferred tax asset to be utilized.

Share Capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares are recognized as a deduction from equity.

Treasury shares are measured at cost and deducted from equity. When NEC Group sells the treasury shares subsequently, the difference between the carrying amount and the consideration received is recognized in share premium. Additional costs directly related to repurchase or sale of treasury shares are deducted from equity.

1. Notes to Consolidated Statements of Financial Position

*1. Accumulated depreciation of property, plant and equipment is as follows:

JPY (millions)

Items	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Accumulated depreciation of property, plant and equipment	885,325	930,832

*2. Details of other components of equity

JPY (millions)

Items	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Remeasurements of defined benefit plans	(37,575)	(35,326)
Exchange differences on translating foreign operations	(19,801)	(32,415)
Cash flow hedges	(650)	(609)
Equity instruments designated as measured at fair value through other comprehensive income	29,907	9,886
Total	(28,119)	(58,464)

*3. Disposal Group Held for Sale

(Fiscal year ended March 31, 2019)

On November 29, 2018, NEC determined to transfer all businesses of NEC Lighting, Ltd., ("NEC Lighting"), through a company split to a newly formed company under the investment fund that receives advice from Nippon Mirai Capital Co.,Ltd.
With this determination to transfer shares, the assets and liabilities of NEC Lighting are classified into a disposal group held for sale. This disposal group is measured by the carrying amount because the fair value is greater than that of the carrying amount. The disposal group consists of the following assets and liabilities as of March 31, 2019.

JPY (millions)

Items	Amount
Cash and cash equivalents	3,502
Trade and other receivables	2,686
Inventories	2,568
Other assets	315
Total assets	9,071

JPY (millions)

Items	Amount
Trade and other payables	3,637
Other liabilities	5,434
Total liabilities	9,071

Regarding the assets and liabilities of NEC Energy Devices, Ltd. ("NEC Energy Devices") and Automotive Energy Supply Corporation ("AESC") classified into a disposal group held for sale in the previous fiscal year, the transactions of transfer shares were scheduled to be executed on June 29, 2018 as all conditions precedent were fulfilled. However, those transactions were not executed as a purchaser of NEC Energy Devices failed to fulfill the purchaser's payment obligations under those transactions.
Later, on August 3, 2018, NEC has determined to transfer (i) all shares of NEC Energy Devices owned by NEC to Envision Electrodes Corporation Ltd., and (ii) all shares of AESC owned by NEC and NEC Energy Devices to Nissan Motor Co., Ltd. ("Nissan"), thereby enabling Nissan to transfer all shares of AESC to Envision. Those transactions were executed on March 29, 2019.

(Fiscal year ended March 31, 2020)

On March 25, 2020, NEC determined to transfer 66% of shares of NEC Display Solutions, Ltd. ("NEC Display Solutions"),a subsidiary of NEC operating in the B to B Display business, to Sharp Corporation. On the same day, NEC also determined to transfer all holding shares of Showa Optronics Co., Ltd ("Showa Optronics"), a subsidiary of NEC operating in the optical components business, to Kyocera Corporation.

With these determinations to transfer shares, the assets and liabilities of NEC Display Solutions and Showa Optronics are classified into disposal groups held for sale. In addition, NEC Display Solutions belongs to the reportable segment "Global". The disposal groups are measured by the carrying amount because the fair value is greater than that of the carrying amount. The disposal groups consist of the following assets and liabilities as of March 31, 2020.

JPY (millions)

Items	Amount
Cash and cash equivalents	4,161
Trade and other receivables	12,349
Inventories	16,496
Other assets	8,204
Total assets	41,210

JPY (millions)

Items	Amount
Trade and other payables	11,786
Other liabilities	18,347
Total liabilities	30,133

Regarding the assets and liabilities of NEC Lighting classified as a disposal group held for sale as of March 31, 2019, the business transfer was executed on April 1, 2019.

And regarding the assets and liabilities of Nippon Avionics Co., Ltd, ("Nippon Avionics") classified as a disposal group held for sale during the fiscal year ended March 31, 2020, NEC sold all of common stocks of Nippon Avionics through a cash tender offer. As a result, these assets and liabilities were excluded from the scope of consolidation on January 31, 2020.

2. Notes to Consolidated Statements of Profit or Loss

*1. Finance income and finance costs

JPY (millions)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Finance income		
Interest income	1,995	1,994
Dividend income	5,444	5,148
Gain on sales of associates	12,603	135
Foreign exchange gains, net	265	―
Other	1,682	1,200
Total	21,989	8,477

JPY (millions)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Finance costs		
Interest expenses	6,870	9,844
Foreign exchange losses, net	―	3,560
Other	1,507	2,060
Total	8,377	15,464

Notes

"Gain on sales of associates" in the fiscal years ended March 31,2019 is mainly from the sale of shares of AESC.

Interest income arises from financial assets measured at amortised cost. Dividend income arises from equity instruments designated as measured at fair value through other comprehensive income. In addition, interest expenses arises from financial liabilities measure at amortized cost and lease liabilities.

3. Notes to Consolidated Statements of Changes in Equity

(1)Total number of issued shares

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Total number of issued shares (Thousands of shares)		
Beginning of the year	260,473	260,473
Changes during the year	―	―
End of the year	260,473	260,473

Notes: The number of shares is rounded to the nearest thousand.

(Overview of Change)
Not applicable.

(2)Information relating to dividends

(a) Dividends paid

Fiscal year ended March 31, 2019

Resolution	Type of shares	Total dividends JPY (millions)	Source of dividends	Dividends per share (yen)	Record date	Effective date
April 27, 2018 Board of Directors	Ordinary shares	15,591	Retained earnings	60	March 31, 2018	June 1, 2018

Fiscal year ended March 31, 2020

Resolution	Type of shares	Total dividends JPY (millions)	Source of dividends	Dividends per share (yen)	Record date	Effective date
April 26, 2019 Board of Directors	Ordinary shares	10,393	Retained earnings	40	March 31, 2019	June 3, 2019

Resolution	Type of shares	Total dividends JPY (millions)	Source of dividends	Dividends per share (yen)	Record date	Effective date
October 29, 2019 Board of Directors	Ordinary shares	7,795	Retained earnings	30	September 30, 2019	December 2, 2019

(b) Dividend for which the record date is in the fiscal year ended March 31, 2020, and the effective date is in the following fiscal year

Resolution	Type of shares	Total dividends JPY (millions)	Source of dividends	Dividends per share (yen)	Record date	Effective date
May 12, 2020 Board of Directors	Ordinary shares	10,393	Retained earnings	40	March 31, 2020	June 1, 2020

4. Segment Information

(1)General information about reportable segments

The NEC Group has six reportable segments: Public Solutions business, Public Infrastructure business, Enterprise business, Network Services business, System Platform business and Global business, all of which are operating segments. Operating segments are defined as the components of the NEC Group for which separate financial information is available that is evaluated regularly by the board of directors of NEC, which is the NEC Group's chief operating decision maker in deciding how to allocate resource and in assessing performance. The NEC Group's various operations are organized into the following six operating segments based primarily on the characteristics of the customers served, and into other business activities that provide products and services such as data center solutions and security solutions to customers:

Public Solutions business provides system integration and development services mainly to local and regional government entities, medical institutions and medium-sized enterprises in Japan.

Public Infrastructure business provides primarily system integration and development services, satellites and satellite management services, sensors and air traffic management systems and broadcasting systems to Japanese national-level government organizations and enterprises in the aerospace, defense and media industries that support national and social infrastructures primarily in Japan.

Enterprise business mainly provides system integration and development services, including consulting, design and implementation, system maintenance and support services, and system outsourcing and cloud services, as well as related equipment, to business enterprises especially in the manufacturing, retail and services, and financial sectors primarily in Japan.

Network Services business mainly provides mobile phone network base stations, fixed and mobile phone networks and other ICT solutions to customers in the telecommunications market primarily in Japan.

System Platform business mainly provides both non-customized and customized hardware, such as servers, mainframes, storage devices, wireless LAN routers and personal computers, and software products as well as maintenance services to government agencies and business enterprises primarily in Japan.

Global business mainly provides *"Safer Cities"*—public safety solutions, software services for service providers, network infrastructure, system devices and energy storage solutions in overseas markets outside of Japan.

(2)Changes to reportable segments and matters related to measurement for segment profit or loss

Effective April 1, 2019, the NEC Group has implemented organizational changes that caused the composition of its current reportable segments to change. Major changes to the reportable segments include a transfer of Enterprise Network Solutions from “System Platform” segment to “Network Services” segment. And NEC’s “Public Solutions Business” which is responsible for business involving regional sales functions and regional government entities in Japan, and its "Public Infrastructure Business” which is in charge of business involving government organizations and enterprises supporting national and social infrastructure, were consolidated into the "Public Business" segment because their economic characteristics, products and services were generally similar. NEC has split each business unit into separate reportable segments, the “Public Solutions Business” segment and the “Public Infrastructure Business” segment. In addition, from the fiscal year ending March 31, 2020, segment profit (loss) is measured by deducting amortization expenses on intangible assets recognized as a result of mergers and acquisitions (“M&A”) and M&A-related expenses (financial advisory fee, etc.) from selling, general and administrative expenses and other operating expenses for the respective segments. The new "segment profit (loss)” is an indicator for measuring underlying profitability in order to clarify the contribution of acquired companies to NEC’s overall earnings. Intersegment sales revenues are made at value that approximates arm's-length prices.

Segment information on revenue, profit or loss and other metrics by reportable segment reflecting above changes retrospectively for the fiscal years ended March 31,2019, and 2020, is in the following "(3)Information about revenue, income or loss by reportable segment" section.

(3)Information about revenue, income or loss by reportable segment
(Fiscal Year ended March 31, 2019)

JPY (millions)

	Reportable Segments							Others (Note 1)	Reconciling items (Note 2)	Consolidated Total
	Public Solutions	Public Infrastructure	Enterprise	Network Services	System Platform	Global	Total			
Revenue										
External customers	286,151	621,879	431,801	460,307	500,213	409,369	2,709,720	203,726	—	2,913,446
Intersegment	7,739	7,772	10,634	11,475	49,207	2,488	89,315	95,393	(184,708)	—
Total	293,890	629,651	442,435	471,782	549,420	411,857	2,799,035	299,119	(184,708)	2,913,446
Segment profit (loss)	7,239	45,358	35,807	20,677	20,078	(22,517)	106,642	18,955	(55,670)	69,927
Acquisition-related amortization of intangible assets										(10,384)
Expenses for M&A										(1,763)
Operating profit										57,780
Finance income										21,989
Finance costs										(8,377)
Share of profit of entities accounted for using the equity method										5,916
Profit before income taxes										77,308

(Fiscal Year ended March 31, 2020)

JPY (millions)

	Reportable Segments							Others (Note 1)	Reconciling items (Note 2)	Consolidated Total
	Public Solutions	Public Infrastructure	Enterprise	Network Services	System Platform	Global	Total			
Revenue										
External customers	324,608	631,140	455,508	509,832	548,692	493,761	2,963,541	131,693	—	3,095,234
Intersegment	7,443	6,095	8,976	16,897	52,353	732	92,496	89,656	(182,152)	—
Total	332,051	637,235	464,484	526,729	601,045	494,493	3,056,037	221,349	(182,152)	3,095,234
Segment profit (loss)	18,602	53,857	37,154	38,207	48,859	(3,752)	192,927	9,374	(56,503)	145,798
Acquisition-related amortization of intangible assets										(16,968)
Expenses for M&A										(1,221)
Operating profit										127,609
Finance income										8,477
Finance costs										(15,464)
Share of profit of entities accounted for using the equity method										3,347
Profit before income taxes										123,969

Notes:

1. "Others" mainly includes businesses such as data center service and lighting equipment in the previous fiscal year, and data center service and security in this fiscal year.
2. "Reconciling items" in segment profit (loss) includes amounts not allocated to each reportable segment that consist principally of corporate expenses of 55,105 million JPY, and 60,769 million JPY for the fiscal years ended March 31, 2019, and 2020, respectively. Corporate expenses are mainly general and administrative expenses and research and development expenses incurred at the headquarters of NEC.

(4)Information about geographic areas

Revenue from external customers

JPY (millions)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Japan	2,224,345	2,343,260
North America and Latin America	174,385	164,075
Europe, Middle East, and Africa	161,094	234,097
China, East Asia, and Asia Pacific	353,622	353,802
Total	2,913,446	3,095,234

5. Earnings Per Share

The calculation of basic earnings per share ("EPS") and diluted EPS has been based on the following profit attributable to ordinary shareholders of the parent company for the fiscal years ended March 31, 2019,and 2020:

JPY (millions)

	2019	2020
Net profit attributable to owners of the Company	39,675	99,967
Net profit attributable to ordinary shareholders of the parent to calculate basic EPS	39,675	99,967
Net profit attributable to ordinary shareholders of the Company after adjustment for the effects of dilutive potential ordinary shares	39,674	99,967
Weighted-average number of ordinary shares to calculate basic EPS (in thousands of shares)	259,738	259,644
Weighted-average number of ordinary shares (diluted) (in thousands of shares)	259,738	259,644
Basic EPS (JPY)	152.75	385.02
Diluted EPS (JPY)	152.75	385.01

Note:Net Profit attributable to ordinary shareholders of the Company after adjustment for the effects of dilutive potential ordinary shares includes the effect of share options issued by Japan Aviation Electronics Industry Ltd., a subsidiary of the Company.

6. Business Combinations

(Fiscal year ended March 31, 2019)

Business combination of a subsidiary

NEC has acquired KMD Holding ApS, the largest Danish IT company from Advent International, a private equity investor, making KMD a consolidated subsidiary of NEC.

Through the acquisition, NEC acquires a business model that leverages platforms in the digital government domain as it aims to expand business from northern Europe to the whole of Europe and globally. A summary of this transaction is as follows:

Summary of the business combination

Name of the acquired company and its business

(i) Name: KMD Holding ApS

(ii) Type of Business: Development and sales of software

Main reason for the business combination

To accelerate the expansion of NEC group's international safety business

Date of the business combination

February 21, 2019

Voting rights acquired

On the acquisition date: 100.00 %

Consideration for the acquisition

JPY (millions)

Item	Amount
Cash and cash equivalents	48,377
Total	48,377

Acquisition-related costs

Outsourcing service expenses and other expenses related to the share acquisition of 1,128 million JPY were recorded in "Selling, general and administrative expenses" in the consolidated statement of profit or loss for the fiscal year ended March 31, 2019 as the acquisition-related costs for the business combination.

Fair value of assets acquired and liabilities assumed at the acquisition date

JPY (millions)

Item	Amount
Current assets	
Cash and cash equivalents	3,104
Trade receivables	9,604
Others	6,933
Non-current assets	
Property, plant and equipment	2,181
Intangible assets	25,460
Others	911
Total assets	48,193
Current liabilities	
Trade payables	9,396
Others	21,573
Non-current liabilities	
Financial Liabilities	79,365
Others	12,198
Total liabilities	122,532
Equity	(74,339)

Some of the amounts above are provisional fair value calculated based on reasonable information available at March 31, 2019, because the allocation of the acquisition costs has not been completed.

Goodwill arising on acquisition

JPY (millions)

Item	Amount
Consideration for the acquisition	48,377
Fair value of identifiable net liabilities acquired by the NEC Group	74,339
Goodwill arising on acquisition	122,716

Goodwill mainly reflects excess earnings power and synergies with existing businesses. Entire goodwill is not expected to be deductible for tax purposes.

Impact on the NEC Group's performance

Revenue and net profit (loss) of the acquired company that was incurred after the acquisition date recorded in the consolidated statement of profit or loss for the fiscal year ended March 31, 2019 were 6,617 million JPY and 120 million JPY, respectively.

Assuming that this business combination had taken place at the beginning of the fiscal year ended March 31, 2019, the NEC Group's revenue and net profit (loss) in the consolidated statement of profit or loss for the fiscal year ended March 31, 2019 would be 2,995,268 million JPY and 40,429 million JPY, respectively.

(Fiscal year ended March 31, 2020)

Revision of the provisional amount

NEC has acquired KMD Holding ApS, the largest Danish IT company from Advent International, a private equity investor, making KMD a consolidated subsidiary of NEC. Through the acquisition, NEC acquires a business model that leverages platforms in the digital government domain as it aims to expand business from northern Europe to the whole of Europe and globally. While provisional fair values are provided during the year ended March 31, 2019, allocation of the acquisition price was completed during the second quarter of the year ended March 31, 2020. As a result, total assets increased by 48,309 million JPY and total liabilities increased by 13,419 million JPY.

Following is the fair value of assets acquired and liabilities assumed and goodwill at the acquisition date after completion of the purchase price allocation. Along with this, NEC retrospectively revised the corresponding consolidated financial statements for the year ended March 31, 2019.

Fair value of assets acquired and liabilities assumed at the acquisition date

JPY (millions)

Item	Amount
Current assets	
Cash and cash equivalents	3,104
Trade receivables	9,604
Others	6,933
Non-current assets	
Property, plant and equipment	2,181
Intangible assets	73,769
Others	911
Total assets	96,502

JPY (millions)

Item	Amount
Current liabilities	
Trade payables	9,396
Others	22,535
Non-current liabilities	
Financial Liabilities	79,365
Others	24,655
Total liabilities	135,951
Equity	(39,449)

Goodwill arising on acquisition

JPY (millions)

Item	Amount
Consideration for the acquisition	48,377
Fair value of identifiable net liabilities acquired by the NEC Group	39,449
Goodwill arising on acquisition	87,826

Goodwill mainly reflects excess earnings power and synergies with existing businesses. Entire goodwill is not expected to be deductible for tax purposes.

7. Subsequent Events

Issuance of Unsecured Straight Bonds

The Company announced the terms for the issuance of its 56th, 57th and 58th series of Unsecured Straight Bonds on April 17, 2020 for the purpose of funding the scheduled redemption of the outstanding straight bonds. All series were issued at par on April 23, 2020, and have, as a financial covenant, a negative pledge clause (with an inter-bond pari passu clause). The information about the aggregate notional amount, coupon rate and maturity date is as follows:

Series	Aggregate notional amount (million JPY)	Coupon rate (per annum)	Maturity date
56th	10,000	0.280%	April 21, 2023
57th	15,000	0.400%	April 23, 2025
58th	10,000	0.540%	April 23, 2030

8. Impact of Changes in Accounting Policies

Application of IFRS 16, "Leases"

During the fiscal year ended March 31, 2020, the NEC Group has adopted IFRS 16. The comparative information has not been restated using the transition method under IFRS 16 and the cumulative effect of the adoption of IFRS 16 is recognized as of the date of initial application on April 1, 2019. In addition, the NEC Group elected to not to reassess whether a contract is, or contains, a lease at the date of initial application using a practical expedient of IFRS 16. Accordingly, the NEC Group grandfathers its previous assessment of whether a contract is, or contains, a lease based on IAS 17 and IFRIC 4, "Determining whether an Arrangement Contains a Lease." In addition, the adoption of IFRS 16 does not significantly affect the retained earnings at the beginning of fiscal year ended March 31, 2020.

Leases previously classified as operating leases applying IAS 17

In transitioning to IFRS 16, the NEC Group has elected to apply the following practical expedients for leases previously classified as operating leases applying IAS 17:

- As an alternative to performing an impairment review, the NEC Group relied on its assessment of whether leases were onerous by applying IAS 37, "Provisions, Contingent Liabilities and Contingent Assets," immediately before the date of initial application.
- The NEC Group elected not to recognize right-of-use assets and lease liabilities for leases for which the lease term ends within 12 months of the date of initial application.
- The NEC Group excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

In addition, at the date of initial application, the lease liabilities were measured at the present value of the remaining lease payments discounted using the NEC Group's incremental borrowing rate. The weighted average of the lessee's incremental borrowing rates was 1.3%.

Leases previously classified as finance leases applying IAS 17

For leases that the NEC Group as a lessee previously classified as finance leases applying IAS 17, the carrying amounts of the right-of-use assets and the lease liabilities at the date of initial application were the carrying amounts of the leased assets and the lease liabilities immediately before that date measured applying IAS 17.

The following is a reconciliation of non-cancellable operating lease commitments applying IAS 17 as of March 31, 2019, and the lease liabilities recognized at the date of initial application:

JPY (millions)

Non-cancellable operating lease commitments discounted using the incremental borrowing rate as of March 31, 2019	59,469
Finance lease liabilities as of March 31, 2019	5,713
Cancellable operating lease contracts, etc.	81,800
Extension options reasonably certain to be exercised	33,849
Lease liabilities as of April 1, 2019	180,831

Right-of-use assets additionally recognized at the date of initial application in the condensed consolidated statement of financial position were 175,716 million JPY.

5. Cautionary Statement with Respect to Forward-Looking Statements

This material contains forward-looking statements regarding estimations, forecasts, targets and plans in relation to the results of operations, financial conditions and other overall management of the NEC Group (the "forward-looking statements"). The forward-looking statements are made based on information currently available to NEC and certain assumptions considered reasonable as of the date of this material. These determinations and assumptions are inherently subjective and uncertain. These forward-looking statements are not guarantees of future performance, and actual operating results may differ substantially due to a number of factors.

The factors that may influence the operating results include, but are not limited to, the following:

- adverse economic conditions in Japan or internationally;
- foreign currency exchange and interest rate risks;
- changes in the markets in which the NEC Group operates;
- the recent outbreak of the novel coronavirus;
- potential inability to achieve the goals in the NEC Group's medium-term management plan;
- fluctuations in the NEC Group's revenue and profitability from period to period;
- difficulty achieving the benefits expected from acquisitions, business combinations and reorganizations;
- potential deterioration in the NEC Group's relationships with strategic partners or problems relating to their products or services;
- difficulty achieving the NEC Group's growth strategies outside Japan;
- potential inability to keep pace with rapid technological advancements in the NEC Group's industry and to commercialize new technologies;
- intense competition in the markets in which the NEC Group operates;
- risks relating to the NEC Group's concentrated customer base;
- difficulties with respect to new businesses;
- potential failures in the products and services the NEC Group provides;
- potential failure to procure components, equipment or other supplies;
- difficulties protecting the NEC Group's intellectual property rights;
- potential inability to obtain certain intellectual property licenses;
- the NEC Group's customers may encounter financial difficulties;
- difficulty attracting, hiring and retaining skilled personnel;
- difficulty obtaining additional financing to meet the NEC Group's funding needs;
- potential failure of internal controls;
- potentially costly and time-consuming legal proceedings;
- risks related to regulatory change and uncertainty;
- risks related to environmental laws and regulations;
- information security and data protection concerns and restrictions;
- potential changes in effective tax rates or deferred tax assets, or adverse tax examinations;
- risks related to corporate governance and social responsibility requirements;
- risks related to natural disasters, public health issues, armed hostilities and terrorism;
- risks related to the NEC Group's pension assets and defined benefit obligations; and
- risks related to impairment losses with regard to goodwill.

The forward-looking statements contained in this material are based on information that NEC possesses as of the date hereof. New risks and uncertainties come up from time to time, and it is impossible for NEC to predict these events or how they may affect the NEC Group. NEC does not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

***